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RUEHBR/AMEMBASSY BRASILIA 9942
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RUEHCV/AMEMBASSY CARACAS 4210
RUEHHI/AMEMBASSY HANOI 0004
RUEHPE/AMEMBASSY LIMA 4541
RUEHMN/AMEMBASSY MONTEVIDEO 5986
RUEHQ/AMEMBASSY QUITO 6827
RUEHSG/AMEMBASSY SANTIAGO 1602
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SIPDIS

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TAGS: ECON PGOV PREL EINV BL EFIN ELAB

SUBJECT: U.S. FURNITURE MAKER FACES BOLIVIAN CHALLENGES

Classified By: A/DCM Mike Hammer for reasons 1.4 (b, d).

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Summary
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¶1. (SBU) SumaPacha is a Bolivian subsidiary of North Carolina-based ForestWorld. It is one of the largest woodcrafting plants in Latin America and is located in El Alto, the poor, largely indigenous city adjoining La Paz. Founded twenty years ago by a Bolivian graduate of the University of North Carolina, the company is now one of the ten largest manufacturers in Bolivia with over 600 employees. However, the future of SumaPacha in Bolivia is not assured. Political upheaval, threats against the "capitalist system," a growing sense of entitlement among communities and social groups, and the downturn in the global economy all buffet the business. SumaPacha provides an interesting case study on the challenges of running a business in Bolivia. End Summary.

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SumaPacha: An Overview
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¶2. (SBU) Twenty years ago George Satt, Executive President of SumaPacha, returned to Bolivia following business school in North Carolina to begin a furniture making business. The company has grown from hand carving individual mahogany chairs to being a subsidiary of North Carolina-based ForestWorld and major supplier of lawn furniture and other tropical wood products. At the over 300,000 square foot factory in El Alto, 600 employees man two daily eight hour shifts to fill orders totaling over 200,000 units a year from U.S. giants Home Depot and Lowes. Most exports are destined for the U.S. market, but the company is also working to expand into other emerging markets and up to 20 percent of exports now head to China. The company was not heavily impacted by the withdraw of ATPDEA benefits, as the vast majority of its exports can enter the U.S. under the General System of Preferences (only flooring products, a minor portion of their business, will be affected).

¶3. (SBU) SumaPacha not only impacts the economy through its factory: Satt estimates that including its forest operations total dependent jobs may reach as high as 3000

throughout Bolivia. Moreover, the company also has its own 16 person design center in La Paz. SumaPacha prides (and markets) itself on being the premier manufacturer of sustainably harvested forest products. All of the wood they use is certified by the Forest Stewardship Council (FSC) out of Berlin. Currently, SumaPacha sources about 80 percent of its wood in Bolivia, while the remainder comes from concessions in Peru. While Bolivia has offered a ready source of FSC certified hardwoods from its tropical regions, Satt also emphasizes the benefits at manufacturing at 14,000 feet. While lowland factories have to contend with humidity build-up in stored lumber, the arid conditions in El Alto allow wood to remain at the desired six percent humidity level for weeks following the drying process. Along with an excellent work force, Satt says these advantages have allowed it to be a world leader. SumaPacha's only serious market competitor is located in Vietnam, which he believes is competitive because of hidden state subsidies.

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Challenges Facing the Business
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¶4. (C) The current financial crisis, in conjunction with the Bolivian political environment, is having a clear impact on SumaPacha. Satt told us that financing for developing forest concessions was nearly impossible given the tightness of the international credit markets and because of Bolivia's high political risk ratings. He believes that a lack of credit is the biggest issue currently facing the business.

LA PAZ 00002532 002 OF 003

That said, the general economic downturn is also taking its toll. Sales to the U.S. market are already down 9 percent and demand in China has fallen a whopping 50 percent. As a result, Satt is facing a possible 10 percent reduction in his work force; a tricky proposition in the highly politicized El Alto community.

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Negotiating Bolivian Politics
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¶5. (C) Satt notes that one of the keys to successfully operating in El Alto is maintaining good relations with the local neighborhood association (FEJUVE). This has been an emphasis at SumaPacha and, while it is challenging to reestablish relations every year with new leadership, Satt says that the company is recognized for its contributions to local employment. In fact, the FEJUVE even provided an exception for SumaPacha during the latest road blockades in El Alto for wood shipments to arrive on time at the plant. However, cooperation is always on a case-by-case basis and "keeping the FEJUVE leadership happy" is a key to operational continuity. (Note: Other manufacturers have complained to us about labor organizers from Argentina stirring up unrest in their factories. Satt made no mention of such problems and said that relations with the local union were "manageable." End Note.)

¶6. (C) While SumaPacha has enjoyed good relations with the local community around the factory, it is running into problems with their wood supplies. When asked what threats he saw from the proposed Movement Toward Socialism (MAS) Constitution, Satt answered that the real problem is coming from raised expectations and a sense of heightened "rights" from local communities. While the specific language threatening logging concessions was removed during the latest negotiations over bringing the proposed Constitution to a national referendum January 25, community groups already have the idea that they now call the shots on nearby state lands. Satt said that the company had already lost the ability to log on one concession in the Department (state) of Pando, and he saw the problem as getting worse. As a result, SumaPacha has purchased 40 year leases in Peru for wood (in Bolivia they don't own the concessions, but rather buy the right to

log from the concession owners). While only 20 percent of their wood currently comes from Peru, Satt sees that percentage rising to 50 percent within two years and puts the probability of sourcing all of its supply from Peru at about 70 percent. Satt further lamented that following 1996 legal actions, Bolivia was a world model for sustainable tropical forestry but now the entire model is under threat. During President Evo Morales' two and a half year tenure Satt has seen a marked increase in contraband logging and he thinks the trend will continue as community control grows and government oversight diminishes.

¶ 7. (C) As with many manufacturers in Bolivia, Satt is considering moving the whole operation to Peru. The company has been actively courted by the Peruvian government and Satt himself received a phone call from President Garcia. While the costs of moving the factory itself would not be prohibitively high (only US\$ 5 million), Satt is resistant. He reported that the workers in highland Peru are unreliable and he would not consider the area around Lake Titicaca despite the advantages of processing the wood at high altitude. Therefore, the option being considered is relocation to Lima where operating costs would be a full 180 percent higher. All things considered, Satt said that the odds of relocation are only around 20 percent.

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MAS Propaganda Machine
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¶ 8. (C) With the suspension of ATPDEA benefits, the manufacturing sector has been in the news and the MAS has been ramping up the propaganda to tout its successes in

LA PAZ 00002532 003 OF 003

opening new markets for Bolivian goods, i.e. Venezuela. At a small gathering discussing these new markets, Satt was filmed praising the government's efforts. Unbeknownst to him, the episode has become a national television spot touting the new markets. No one is exempt from politics in Bolivia, especially not one of the top ten manufacturing employers in the country.

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Comment
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¶ 9. (C) As an American company, whose major market is the U.S., SumaPacha finds itself in a particularly delicate position. Ironically, actions by the "eco-friendly, back to earth" Morales administration are dismantling one of the world's best models of sustainable forest protection and threatening the supply of certified wood demanded by the "exploitive" capitalist U.S. retailers. Yet this likely inadvertent consequence of MAS actions are not the only threats to SumaPacha. As a part of the Bolivian private sector, it must also bear the costs of Morales's moves against private property through costlier (or nonexistent) credit. Despite these challenges and the highly politicized environment, SumaPacha remains an important part of the El Alto community and is, for now, committed to staying in Bolivia.

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